

Road Commission of Macomb County

**Financial Report
September 30, 2003**

Road Commission of Macomb County

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Independent Auditor's Report

To the Board of Road Commissioners
Road Commission of Macomb County

We have audited the accompanying financial statements of the governmental activities, the Road Fund (the Road Commission's only major fund), and the aggregate remaining fund information of the Road Commission of Macomb County (a component unit of Macomb County, Michigan) as of and for the year ended September 30, 2003, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the Road Fund (the Road Commission's only major fund), and the aggregate remaining fund information of the Road Commission of Macomb County at September 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

December 19, 2003

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Road Commission of Macomb County

Management's Discussion and Analysis

As management of the Road Commission of Macomb County, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended September 30, 2003.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Financial Analysis

Net assets enable governmental agencies to determine their overall fiscal position. The Road Commission of Macomb County's net assets increased 8.2 percent from a year ago, increasing from \$607.7 million to \$657.4 million. This increase was due primarily to continued growth in the northern part of Macomb County, which resulted in additional infrastructure that will be maintained by the Road Commission. In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of September 30, 2003 to the prior year.

Condensed Statement of Net Assets

	2003	2002
Current assets	\$ 65.7	\$ 68.5
Capital assets	<u>602.9</u>	<u>553.5</u>
Total assets	668.6	622.0
Current liabilities	8.4	10.8
Long-term liabilities outstanding	<u>2.8</u>	<u>3.5</u>
Total liabilities	<u>11.2</u>	<u>14.3</u>
Net assets:		
Invested in capital assets	602.9	553.4
Unrestricted	<u>54.5</u>	<u>54.3</u>
Total net assets	<u><u>\$ 657.4</u></u>	<u><u>\$ 607.7</u></u>

Unrestricted net assets, which is the part of net assets that is available to finance the day-to-day operations of road activity and the future growth of Macomb County for infrastructure, were \$54.5 million at September 30, 2003. This amount is consistent with last year's unrestricted net assets. The Road Commission of Macomb County secured a record-breaking \$57 million of construction activities under contract. The expenditures for these projects will be incurred over future years as the projects are completed.

Road Commission of Macomb County

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in millions of dollars) as of September 30, 2003 and the prior year:

Condensed Statement of Activities

	2003	2002
Revenue		
State aid	\$ 44.6	\$ 46.5
Federal sources	10.8	6.7
Local and other sources	20.0	13.2
Land and roads released from developers	36.9	44.0
Total revenue	112.3	110.4
Expenses		
Maintenance	15.6	12.5
Administrative	18.2	14.3
Depreciation	28.8	27.9
Total expenses	62.6	54.7
Increase in Net Assets	49.7	55.7
Net Assets - Beginning of year	607.7	552.0
Net Assets - End of year	<u>\$ 657.4</u>	<u>\$ 607.7</u>

Road Fund Statement of Activities

The Road Commission's total revenue increased by approximately \$1.9 million over the prior year. This increase can be attributed to the increase in construction projects, and the related revenue with these projects. Expenses increased approximately \$7.9 million over last year, or 14.4 percent. The majority of the increase fell into three categories; (1) construction expenditures, (2) increase in health care costs, and (3) depreciation expense on the current year's infrastructure. Overall, net assets increased \$49.7 million from the prior year.

Road Commission of Macomb County

Management's Discussion and Analysis (Continued)

Road Fund Budgetary Highlights

Prior to beginning each new fiscal year, the Road Commission of Macomb County's budget is prepared based upon certain assumptions and facts available at that time. Throughout the year, the Road Commission's Board amends the budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was adopted. In addition, the Board reviews and authorizes expenditures and capital equipment purchases throughout the year. The Road Commission amended its 2003 budget on several occasions during the year to reflect a change in equipment expense and status changes in budgeted construction projects. The final budget was \$35.3 million lower than the original budget primarily due to changes in construction projects. The actual revenues for fiscal year 2003 were on target with the amended budget, but the expenditures on the construction fell short of the expected amount. Although the Road Commission secured a record-breaking \$57 million of construction activities under contract, actual expenditures on these contracts were less than anticipated in fiscal year 2003.

Capital Assets

The Road Commission had \$602.9 million in capital assets at the end of the fiscal year. This amount represents a net increase of \$49.5 million from the previous year, or approximately 8.9 percent. The Road Commission added over \$62.6 million to its investment in capital assets during the current year, including over \$58.6 million of infrastructure additions. The recorded amount of the infrastructure assets, net of depreciation contained in this report, is \$422.8 million and \$390.1 million for fiscal years 2003 and 2002, respectively. The infrastructure will continue to be the largest asset class.

Economic Factors and Next Year's Budget

Reductions in revenue sharing will directly affect the local units of government. This will in turn affect the amount of funds the local units will have available to participate in road projects. Without adequate increases in MTF revenue and revenue sharing, the Road Commission of Macomb County will have diminishing resources for road improvements and maintenance activities. Despite these budget cuts, the Road Commission is continuing to move ahead on all planned projects. The revenue and expenditures will be monitored throughout the year to assure fiscal responsibility.

Contacting the Road Commission Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Road Commission of Macomb County, Michelle M. Miller, Finance Director. For more specific information regarding construction projects, contact Edwin Tatem, County Highway Engineer.

Road Commission of Macomb County

		Nonmajor Funds	
	Major Fund - Road	Postemployment Benefits	Capital Projects
Assets			
Cash and investments (Note 4)	\$ 35,907,516	\$ 1,775,370	\$ 2,629,758
Receivables:			
State of Michigan	7,921,469	-	-
Construction accounts receivable	3,484,997	-	-
Accrued interest receivable	230,198	-	-
Other	481,467	-	-
Inventory	3,275,943	-	-
Surplus properties	193,639	-	-
Prepaid expenses and other	258,363	-	-
Capital assets - Net (Note 5):			
Assets not being depreciated	-	-	-
Assets being depreciated	-	-	-
Total assets	<u>\$ 51,753,592</u>	<u>\$ 1,775,370</u>	<u>\$ 2,629,758</u>
Liabilities and Fund Balances			
Liabilities			
Current liabilities:			
Accounts payable	\$ 3,583,405	\$ 5,539	\$ -
Advances and deposits	3,320,007	-	-
Provision for uninsured losses (Note 6)	-	-	-
Accrued workers' compensation (Note 6)	33,969	-	-
Accrued liabilities and other	1,392,393	-	-
Noncurrent liabilities:			
Provision for uninsured losses (Note 6)	-	-	-
Accrued workers' compensation liabilities (Note 6)	-	-	-
Accrued sick and vacation	-	-	-
Total liabilities	8,329,774	5,539	-
Fund Balances - Unreserved			
Designated (Note 9)	41,366,943	-	2,629,758
Undesignated	2,056,875	1,769,831	-
Total fund balances	43,423,818	1,769,831	2,629,758
Total liabilities and fund balances	<u>\$ 51,753,592</u>	<u>\$ 1,775,370</u>	<u>\$ 2,629,758</u>
Net Assets			
Investments in capital assets			
Unrestricted			
Total net assets			

Governmental Funds Balance Sheet/Statement of Net Assets
September 30, 2003

Total Governmental Funds	Adjustments (Note 2)	Statement of Net Assets
\$ 40,312,644	\$ 9,398,430	\$ 49,711,074
7,921,469	-	7,921,469
3,484,997	-	3,484,997
230,198	-	230,198
481,467	-	481,467
3,275,943	-	3,275,943
193,639	-	193,639
258,363	120,000	378,363
-	153,114,500	153,114,500
-	449,780,822	449,780,822
\$ 56,158,720	612,413,752	668,572,472
\$ 3,588,944	7,603	3,596,547
3,320,007	-	3,320,007
-	311,880	311,880
33,969	-	33,969
1,392,393	(304,526)	1,087,867
-	1,473,135	1,473,135
-	232,300	232,300
-	1,140,706	1,140,706
8,335,313	2,861,098	11,196,411
43,996,701	(43,996,701)	-
3,826,706	(3,826,706)	-
47,823,407	(47,823,407)	-
\$ 56,158,720	(44,962,309)	11,196,411
	602,895,322	602,895,322
	54,480,739	54,480,739
	\$ 657,376,061	\$ 657,376,061

Road Commission of Macomb County

		Nonmajor Funds	
	Major Fund - Road	Postemployment Benefits	Capital Projects
Revenue			
Licenses, permits, and fees	\$ 726,952	\$ -	\$ -
Federal aid for construction	10,843,759	-	-
State revenue:			
Michigan Transportation Fund	36,979,531	-	-
Build Michigan Fund	1,416,740	-	-
Category C Fund	5,807,323	-	-
State Critical Bridge	330,163	-	-
Contributions from local units:			
Cities	1,469,912	-	-
Townships	2,285,434	-	-
County	2,638,010	-	-
Other	19,666	-	-
Charges for services:			
State trunkline maintenance	5,863,706	-	-
State nonmaintenance	868,275	-	-
Other revenue:			
Cities, townships, and other	2,212,671	-	-
Inspections	628,789	-	-
Land and roads released from developers	-	-	-
Interest	714,738	-	50,345
Sale of land, property, rental, and other	2,289,439	-	-
Total revenue	75,095,108	-	50,345
Expenditures/Expenses - Current			
Primary road	35,019,677	-	-
Local road	11,297,788	-	-
Primary bridges	814,552	-	-
Local bridges	4,542,529	-	-
State maintenance	4,207,209	-	-
State nonmaintenance	745,757	-	-
Equipment expense - Net of equipment rental credits	(1,403,613)	-	-
Engineering	927,800	-	-
Administrative	1,545,820	-	-
Inspections and other	1,660,752	-	-
Distributive fringe benefits	9,783,320	-	-
Other distributive expense	4,688,230	-	-
Capital outlay - Net of depreciation credits	1,349,668	-	348,012
Depreciation expense	-	-	-
Total expenditures	75,179,489	-	348,012

**Statement of Governmental Revenues, Expenditures, and Changes in
Fund Balances/Statement of Activities
Year Ended September 30, 2003**

Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
\$ 726,952	\$ -	\$ 726,952
10,843,759	-	10,843,759
36,979,531	-	36,979,531
1,416,740	-	1,416,740
5,807,323	-	5,807,323
330,163	-	330,163
1,469,912	-	1,469,912
2,285,434	-	2,285,434
2,638,010	-	2,638,010
19,666	-	19,666
5,863,706	-	5,863,706
868,275	-	868,275
2,212,671	-	2,212,671
628,789	-	628,789
-	36,928,066	36,928,066
765,083	-	765,083
2,289,439	227,862	2,517,301
75,145,453	37,155,928	112,301,381
35,019,677	(24,475,182)	10,544,495
11,297,788	(8,854,284)	2,443,504
814,552	(1,824,282)	(1,009,730)
4,542,529	(2,780,165)	1,762,364
4,207,209	-	4,207,209
745,757	-	745,757
(1,403,613)	-	(1,403,613)
927,800	-	927,800
1,545,820	-	1,545,820
1,660,752	-	1,660,752
9,783,320	(423,419)	9,359,901
4,688,230	-	4,688,230
1,697,680	(3,422,020)	(1,724,340)
-	28,830,116	28,830,116
75,527,501	(12,949,236)	62,578,265

Road Commission of Macomb County

		Nonmajor Funds	
	Major Fund - Road	Postemployment Benefits	Capital Projects
Excess of Expenditures Over Revenue/ Change in Net Assets	\$ (84,381)	\$ -	\$ (297,667)
Other Financing Sources (Uses) - Operating transfer	<u>(1,919,033)</u>	<u>919,033</u>	<u>1,000,000</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(2,003,414)	919,033	702,333
Fund Balances/Net Assets - October 1, 2002	<u>45,427,232</u>	<u>850,798</u>	<u>1,927,425</u>
Fund Balances/Net Assets - September 30, 2003	<u>\$ 43,423,818</u>	<u>\$ 1,769,831</u>	<u>\$ 2,629,758</u>

**Statement of Governmental Revenues, Expenditures, and Changes in
Fund Balances/Statement of Activities (Continued)
Year Ended September 30, 2003**

Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
\$ (382,048)	\$ 50,105,164	\$ 49,723,116
<u>-</u>	<u>-</u>	<u>-</u>
(382,048)	50,105,164	49,723,116
<u>48,205,455</u>	<u>559,447,490</u>	<u>607,652,945</u>
<u>\$ 47,823,407</u>	<u>\$ 609,552,654</u>	<u>\$ 657,376,061</u>

Road Commission of Macomb County

Road Fund Budgetary Comparison Schedule Year Ended September 30, 2003

	Original Budget	Amended Budget	Actual
Revenue			
Licenses, permits, and fees	\$ 744,875	\$ 726,952	\$ 726,952
Federal aid for construction	34,665,358	11,778,631	10,843,759
State revenue:			
Michigan Transportation Fund	34,300,000	35,652,963	36,979,531
Build Michigan Fund	1,260,000	1,416,741	1,416,740
Category C Fund	-	6,425,170	5,807,323
State Critical Bridge	1,741,810	891,477	330,163
Contributions from local units:			
Cities	2,366,778	1,933,868	1,469,912
Townships	860,200	2,144,836	2,285,434
County	3,780,845	3,095,049	2,638,010
Other	845,000	1,560,351	19,666
Charges for services:			
State trunkline maintenance	5,437,058	5,863,706	5,863,706
State nonmaintenance	750,000	868,275	868,275
Other revenue:			
Cities, townships, and other	1,505,000	1,227,671	2,212,671
Inspections	850,000	651,537	628,789
Interest	1,200,000	717,639	714,738
Sale of land, property, rental, and other	272,000	502,016	2,289,439
Total revenue	90,578,924	75,456,882	75,095,108
Expenditures - Current			
Primary road	68,986,341	37,655,299	35,019,677
Local road	11,176,973	11,973,030	11,297,788
Primary bridges	670,000	425,220	814,552
Local bridges	8,752,000	4,855,300	4,542,529
State maintenance	3,642,139	4,200,286	4,207,209
State nonmaintenance	660,617	800,757	745,757
Equipment expense - Net of equipment rental credits	(1,000,000)	(2,906,155)	(1,403,613)
Engineering	903,329	977,800	927,800
Administrative	1,803,127	1,800,743	1,545,820
Inspections and other	1,806,400	1,795,476	1,660,752
Distributive fringe benefits	9,434,550	9,783,320	9,783,320
Other distributive expense	4,288,025	4,680,602	4,688,230
Capital outlay - Net of depreciation credits	1,300,419	1,100,256	1,349,668
Total expenditures	112,423,920	77,141,934	75,179,489
Excess of Expenditures Over Revenue	(21,844,996)	(1,685,052)	(84,381)
Other Financing Uses - Operating transfer	(2,500,000)	(2,454,431)	(1,919,033)
Excess of Expenditures and Other Uses Over Revenue	(24,344,996)	(4,139,483)	(2,003,414)
Fund Balance - October 1, 2002	45,427,232	45,427,232	45,427,232
Fund Balance - September 30, 2003	\$ 21,082,236	\$ 41,287,749	\$ 43,423,818

Road Commission of Macomb County

Proprietary Fund - Internal Service Fund - Self-insurance Statement of Net Assets September 30, 2003

Assets - Current

Investments	\$ 9,398,430
Prepaid costs and other assets	<u>120,000</u>
Total assets	9,518,430

Liabilities

Current liabilities:

Accounts payable	7,603
Provision for uninsured losses	<u>311,880</u>

Total current liabilities	319,483
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Noncurrent liabilities - Provision for uninsured losses	<u>1,473,135</u>
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Total liabilities	<u>1,792,618</u>
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Net Assets - Unrestricted	<u><u>\$ 7,725,812</u></u>
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Road Commission of Macomb County

Proprietary Fund - Internal Service Fund - Self-insurance Statement of Revenues, Expenses, and Changes in Net Assets Year Ended September 30, 2003

Operating Revenues	\$ -
Operating Expenses	
Settlements, premiums, and other	449,630
Decrease in allowance for unsettled claims incurred but not reported	<u>(701,682)</u>
Total operating expenses	<u>(252,052)</u>
Operating Income	252,052
Nonoperating Revenues - Interest income	<u>179,005</u>
Increase in Net Assets	431,057
Net Assets - Beginning of year	<u>7,294,755</u>
Net Assets - End of year	<u><u>\$ 7,725,812</u></u>

Road Commission of Macomb County

Proprietary Fund - Internal Service Fund - Self-insurance Statement of Cash Flows Year Ended September 30, 2003

Cash Flows from Operating Activities - Claims, settlements, premiums, and other items paid	\$ (523,996)
Cash Flows from Investing Activities	
Interest received on investments	179,005
Net proceeds and purchases of investment securities	<u>344,991</u>
Net cash provided by investing activities	<u>523,996</u>
Net Change in Cash and Cash Equivalents	-
Cash and Cash Equivalents - Beginning of year	<u>-</u>
Cash and Cash Equivalents - End of year	<u><u>\$ -</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 252,052
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:	
Accounts payable	(1,973)
Provision for uninsured losses and liabilities	<u>(774,075)</u>
Net cash used in operating activities	<u><u>\$ (523,996)</u></u>
Reconciliation to Balance Sheet	
Cash and investments recorded on balance sheet	\$ 9,398,430
Less fixed-term investments	<u>(9,398,430)</u>
Total	<u><u>\$ -</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended September 30, 2003, there were no noncash investing, capital, or financing activities.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2003

Note I - Significant Accounting Policies

The Road Commission of the County of Macomb, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in Macomb County. The Road Commission's financial statements will be included in the basic financial statements of the County of Macomb, Michigan as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Road Commission is governed by an appointed three-member Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the Road Commission of Macomb County. In accordance with generally accepted accounting principles, there are no component units included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. For the most part, the effect of interfund activity has been removed from these statements. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and are included in the government-wide financial statements. Major and nonmajor individual governmental funds are reported as separate columns. Separate financial statements are provided for the proprietary fund.

Road Commission of Macomb County

**Notes to Financial Statements
September 30, 2003**

Note I - Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Amounts collected beyond this time period are recorded as deferred revenue. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Billings on the contracts generally include a provision for fringe benefits and overhead. No profit is recognized on these contracts. Interest associated with the current fiscal period is considered susceptible to accrual and has been recognized as revenue of the current fiscal period. Deposits with the State of Michigan for construction projects earn interest that is computed and credited to the Road Commission as of September 30 and recorded when received. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditures for construction and work orders are recognized as the work progresses. Amounts billed to other governmental units for participation in construction or for work orders include equipment usage charges based on predetermined rates. These rates are designed to cover direct equipment operating costs, which include depreciation recorded within the government-wide statements. However, expenditures related to compensated absences and claims and judgments, accounted for within the Road Fund, are recorded only when payment is due.

The Road Fund is the Road Commission's only major governmental fund and is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Road Commission of Macomb County

**Notes to Financial Statements
September 30, 2003**

Note I - Significant Accounting Policies (Continued)

Additionally, the Road Commission reports the following fund types:

Special Revenue Fund - The Postemployment Benefits Fund accounts for postemployment benefits payments on behalf of the Road Fund on a cost-reimbursement basis.

Capital Projects Fund - The Capital Projects Fund is used to account for the development of capital facilities.

Internal Service Fund - The Internal Service Fund accounts for risk management services provided to the Road Fund on a cost-reimbursement basis.

Proprietary Funds - Proprietary funds distinguish operating revenue and operating expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash Equivalents - For purposes of the statement of cash flows, the Road Commission does not include fixed-term investments (such as certificates of deposit) as cash equivalents. Only cash items (cash on hand, checking accounts, and savings accounts) are included.

Investments - Investments are reported at fair value, based on quoted market prices.

Inventory and Prepaid Items - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Surplus Properties - Surplus properties are recorded at the lower of acquisition cost or market.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2003

Note 1 - Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-25 years
Infrastructure	8-50 years

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. The government-wide statement of net assets accrues all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier.) A liability for these amounts is reported in governmental funds as it comes due for payment (when time is taken off or employee is terminated.)

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Equity - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent tentative management plans that are subject to change.

Other accounting policies are disclosed in other notes to the financial statements.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2003

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 47,823,407
Capital assets used in governmental activities are not financial resources and are not reported in the funds	602,895,322
State and local receivables not available to pay for current year expenditures and therefore deferred in the governmental funds	304,526
Compensated absences and provision for workers' compensation uninsured losses are not reported in the funds	(1,373,006)
Internal Service Fund is included as part of governmental activities	<u>7,725,812</u>
Government-wide net assets	<u>\$ 657,376,061</u>
Net change in fund balances - Total government funds	\$ (382,048)
Governmental funds report capital outlay as an expenditure; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	12,525,817
Changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	423,419
In the statement of activities, land and roads released from developers are reported as revenue at the fair market value and the fixed asset is capitalized	36,928,066
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	<u>227,862</u>
Change in net assets of governmental activities	<u>\$ 49,723,116</u>

Road Commission of Macomb County

Notes to Financial Statements September 30, 2003

Note 3 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the finance and management information systems administrator and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at September 30, 2003 has not been calculated. The budget was amended in a legally permissible manner with the exception of a budget amendment subsequent to year end.

The budget information for revenue and expenditures presented for the Road Fund is a summarization of the budgeted amounts as originally adopted and as amended by the Board of the Road Commission. Copies of the adopted budget are available for comparison at the Road Commission offices. The Road Fund budget has been adopted on an activity basis and prepared in accordance with generally accepted accounting principles; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. There were no significant budget variances of the Road Fund other than those disclosed in the statement of revenue, expenditures, and changes in fund balance - Road Fund - budget and actual.

Note 4 - Cash and Investments

The Road Commission's cash and investments are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

Deposits with financial institutions (checking accounts, savings accounts, and certificates of deposit)	\$ 47,954,119
Bank investment pools	1,756,555
Petty cash or cash on hand	<u>400</u>
Total	<u>\$ 49,711,074</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$49,732,968. Of that amount, approximately \$900,000 was covered by federal depository insurance and the balance was uninsured and uncollateralized.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2003

Note 4 - Cash and Investments (Continued)

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Road Commission evaluates each financial institution with which it deposits Road Commission funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Road Commission is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. However, the Road Commission policy adopted by the Board restricts investments to certificates of deposit, U.S. Treasury bills, and bank investment pools. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool.

The Road Commission's investments during the year consisted solely of bank investment pools totaling \$1,756,555 at September 30, 2003. Investments are normally categorized to give an indication of the level of risk assumed by the Road Commission; however, bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Road Commission believes that the investments in these pools comply with the investment authority noted above.

The bank investment pools are regulated by the Michigan Banking Act and the fair value of the position in the pool is the same as the value of the pool shares.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2003

Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated - Land	\$ 136,916,411	\$ 16,198,089	\$ -	\$ 153,114,500
Capital assets being depreciated:				
Land improvements	1,314,800	-	-	1,314,800
Buildings	23,383,060	84,908	-	23,467,968
Road equipment	21,600,806	2,897,184	2,514,466	21,983,524
Other equipment	1,713,362	560,215	-	2,273,577
Infrastructure	607,943,403	58,663,889	-	666,607,292
Subtotal	655,955,431	62,206,196	2,514,466	715,647,161
Less accumulated depreciation for:				
Land improvements	482,296	68,172	-	550,468
Buildings	3,483,595	486,157	-	3,969,752
Road equipment	16,757,590	1,928,368	2,394,180	16,291,778
Other equipment	892,463	354,069	-	1,246,532
Infrastructure	217,814,459	25,993,350	-	243,807,809
Subtotal	239,430,403	28,830,116	2,394,180	265,866,339
Net capital assets being depreciated	416,525,028	33,376,080	120,286	449,780,822
Net capital assets	<u>\$ 553,441,439</u>	<u>\$ 49,574,169</u>	<u>\$ 120,286</u>	<u>\$ 602,895,322</u>

Construction Commitments - The Road Commission has two significant active resurfacing projects at year end totaling \$2,033,910 and \$1,584,221. The Road Commission's cumulative expenditures and remaining commitment with these contractors as of September 30, 2003 are \$1,236,758 and \$2,381,373, respectively.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2003

Note 6 - Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits provided to employees but is self-funded for general liability and workers' compensation claims up to a retention amount, at which time the Road Commission's reinsurance begins. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

General Liability Claims

Beginning January 17, 1993, the Road Commission assumes costs for general liability claims, including all cost associated with those claims, within certain limits. The Road Commission is liable for losses up to a retention amount per claim and is liable for losses in excess of the maximum insurance coverage.

The Road Commission estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The Road Commission has been named defendant in numerous claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. It is the opinion of legal counsel and management that reasonable estimates of the Road Commission's liability for these matters have been recorded in the General Liability Self-insurance Fund as outlined below.

Changes in the estimated recorded liability for the past two fiscal years were as follows:

	<u>2003</u>	<u>2002</u>
Estimated liability - Beginning of year	\$ 2,559,090	\$ 3,883,865
Decrease in estimated claims incurred, including changes in estimates	(701,682)	(1,239,184)
Claim payments	<u>(72,393)</u>	<u>(85,591)</u>
Estimated liability - End of year	<u>\$ 1,785,015</u>	<u>\$ 2,559,090</u>

Road Commission of Macomb County

Notes to Financial Statements September 30, 2003

Note 6 - Risk Management (Continued)

There are also certain property and employment-related lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. These lawsuits have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, which may result from the resolution of these cases. Hence, no provision has been made in the financial statements as of September 30, 2003 for any ultimate liability related to these matters in excess of the estimated liability discussed above. However, in the opinion of Road Commission management and legal counsel, the probable additional exposure of the Road Commission for these lawsuits is immaterial to the financial statements.

Workers' Compensation Claims

The Road Commission assumes costs for workers' compensation claims within certain limits.

The Road Commission estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The current portion of these estimates is recorded in the Road Fund. The government-wide statement of net assets includes the current and long-term portions of these estimates. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2003</u>	<u>2002</u>
Estimated liability - Beginning of year	\$ 327,468	\$ 281,894
Increase in estimated claims incurred, including changes in estimates	110,948	219,517
Claim payments	<u>(172,147)</u>	<u>(173,943)</u>
Estimated liability - End of year	<u>\$ 266,269</u>	<u>\$ 327,468</u>

Road Commission of Macomb County

**Notes to Financial Statements
September 30, 2003**

Note 6 - Risk Management (Continued)

The Road Commission recognizes liabilities for environmental remediation costs when such obligations are probable and reasonably estimable. During the year ended June 30, 2001, the Road Commission sold certain property. An environmental assessment was performed subsequent to the sale, which indicated the presence of certain compounds in excess of applicable limits. In its status as former owner and operator and as a generator of solid waste, the Road Commission could be found to be a potentially responsible party. The extent of contamination and cost to the Road Commission of any remediation that may be necessary is unknown as of the date of this report; therefore, no amounts have been accrued.

Note 7 - Postemployment Benefits

The Road Commission provides health care and dental benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 252 retirees are eligible. The Road Commission includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants. The Road Commission purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$2,100,000.

Note 8 - Defined Benefit Pension Plan

Plan Description

The Road Commission contributes to the Macomb County Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Road Commission. The Macomb County Employees' Retirement System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Macomb County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Macomb County Employees' Retirement System. That report may be obtained by writing to the Retirement Commission at 10 N. Main, Mt. Clemens, Michigan 48043.

Funding Policy

The obligation to contribute to and maintain the Macomb County Employees' Retirement System for these employees was established by negotiation with the Road Commission's competitive bargaining units and requires a contribution from the employees of 3.5 percent of gross wages from all covered employees.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2003

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the valuation year ended December 31, 2002, the Road Commission's annual pension cost of \$372,158 for the plan was equal to the Road Commission's required and actual contribution of \$372,158. The annual required contribution was determined as part of an actuarial valuation at December 31, 2000, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5 percent per year, compounded annually and attributable to inflation, (c) additional projected salary increases of up to 5 percent per year, depending on service and attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The remaining UAAL (or overfunding) was amortized by level percentage of payroll contributions over 12 years.

Additional pension plan information for the Road Commission is as follows:

	Plan Year Ended December 31		
	2002	2001	2000
Annual pension cost (APC)	\$ 372,158	\$ 849,866	\$ 1,492,430
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	Valuation Year Ended December 31		
	2002	2001	2000
Actuarial value of assets	\$ 85,917,264	\$ 89,368,629	\$ 87,492,728
Actuarial accrued liability (AAL) (entry age)	\$ 85,178,635	\$ 79,609,325	\$ 76,145,932
Overfunded AAL	\$ 738,629	\$ 9,759,304	\$ 11,346,796
Funded ratio	101.00%	112.26%	114.90%
Covered payroll	\$ 14,370,596	\$ 13,155,595	\$ 10,939,384
UAAL as a percentage of covered payroll	-%	-%	-%

Road Commission of Macomb County

Notes to Financial Statements September 30, 2003

Note 9 - Designated Fund Balance

Fund balances at September 30, 2003 have been designated for the following purposes:

	Major Fund - Road Fund	Non-Major Fund - Capital Projects Fund
Subsequent year's expenditures	\$ 20,866,943	\$ 2,629,758
Bridge projects	5,000,000	-
Capital projects	2,000,000	-
Traffic signal upgrades	10,000,000	-
Drain apportionment	1,000,000	-
Engineering studies	1,000,000	-
Illicit discharge elimination program	1,500,000	-
Total	<u>\$ 41,366,943</u>	<u>\$ 2,629,758</u>